

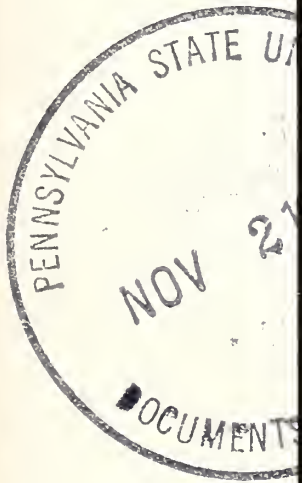
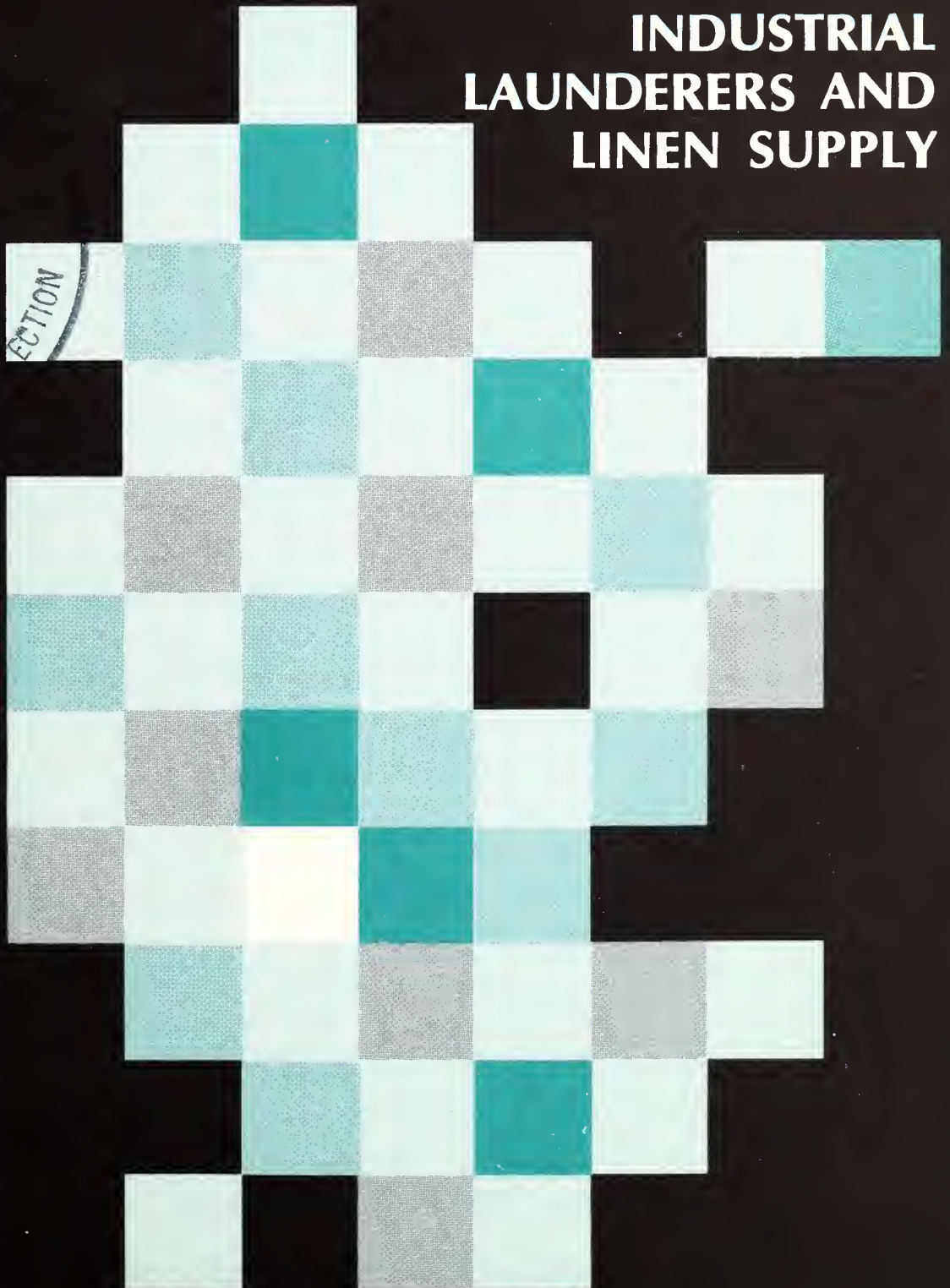
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URBAN BUSINESS PROFILE

INDUSTRIAL LAUNDERERS AND LINEN SUPPLY



**U.S.
DEPARTMENT
OF
COMMERCE**

Economic
Development
Administration

Office of
Minority Business
Enterprise

URBAN BUSINESS PROFILE

INDUSTRIAL LAUNDERERS AND LINEN SUPPLY

SIC 7218 and 7213

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U. S. DEPARTMENT OF COMMERCE
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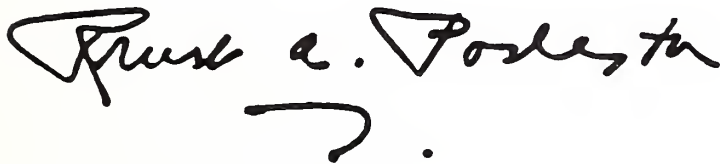
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FOREWORD

As part of a continuing program to provide encouragement and assistance to small business ventures, the U.S. Department of Commerce is issuing a series of Urban Business Profiles.

It is hoped that these reports will serve as a meaningful vehicle to introduce the prospective small urban entrepreneur to selected urban-oriented businesses. More specifically, a judicious use of these profiles could: provide a potential businessman with a better understanding of the opportunities, requirements, and problems associated with particular businesses; provide guidelines on types of information required for location-specific feasibility studies; assist urban development groups in their business creation activities.

A handwritten signature in black ink, reading "Robert A. Podesta". The signature is fluid and cursive, with a large initial 'R' and a distinct 'P'. Below the main signature, there is a small, separate flourish or mark.

Robert A. Podesta
*Assistant Secretary
for Economic Development*

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OFFICE OF MINORITY BUSINESS ENTERPRISE (OMBE) AFFILIATES

URBAN BUSINESS PROFILES

URBAN BUSINESS PROFILE

Industrial Launderers and Linen Supply

(SIC 7218 and 7213)

I. RECOMMENDATION

The industrial launderers and linen supply industries are both growing sectors of the U.S. service industry. Since the technology and markets are basically similar, these industries are often combined in one business. A new business can be started at any level of capitalization between about \$20,000 and \$200,000. The technology is simple, and the skills needed are primarily related to managerial capacity.

The ability to “sell” is an important one. The industries are highly competitive, and selling is vital. The entrepreneur must have the confidence to respond to closed bid competition, the main method by which clients select a laundry or linen supply firm. This confidence will come from experience, good management, and cost control. The industries have had a fairly high failure rate, due largely to poor cost accounting which results in the submission of bids on which the firm can only make a loss (for a contract period as long as 2 to 3 years).

Since the labor productivity has traditionally been low in the industries, and labor costs often represent 50 to 75 percent of total costs, the ability to manage labor is also important. Indeed, every effort must be made to accumulate capital quickly so that the expensive labor saving machinery available can be used.

There is a critical size in the growth of firms in these industries of about \$500,000 to \$1 million annual revenue, at which labor productivity is often too low to compete with larger firms, while overheads are so much higher than those of small firms that underbidding is frequent. The small entrepreneur should be able to outbid all but the cheapest of the larger companies—but only if he is capable of controlling his overhead costs carefully, while being constantly aware of

the need to increase labor productivity at a rate faster than the growth of his total revenues.

This is a critical management problem, and it requires considerable managerial aptitude. With this aptitude the entrepreneur can succeed; without it he will probably fail very quickly as his firm begins to grow beyond a small-size operation.

II. DESCRIPTION OF THE INDUSTRIES

A. Definition

This report treats two industries in parallel. They are:

- SIC 7218 Industrial launderers providing cleaning and reconditioning service for uniforms, towels, safety equipment, work clothes, dust control items. Items are owned either by company or customer, and establishments may or may not operate their own laundries.
- SIC 7213 Linen supply (or services) supplying uniforms, gowns, bed and table linens (on a rental basis) to commercial and service establishments may or may not operate their own laundry.

B. Dimensions of the Industries

1. General

Both of these industries are part of the Nation's \$600 billion "services" sector, and because of this orientation, are growing fast. There are, of course, many features contributing to the growth and to the differences in the growth rates of the two industries.

TABLE 1
Growth of Output and Establishments

	Number of establishments	Linen supply		Number of establishments	Industrial launderers		
		\$ Mil-lions	Output Percent of growth		\$ Mil-lions	Output Percent of growth	
1958		433					
1959		463	6.9				
1960		491	6.0				
1961		498	1.4				
1962		540	8.4				
1963	1,469	571	5.9	768	272	} 10% average annual growth	
1964		611	7.0				
1965		664	8.6				
1966		734	10.6				
1967	1,435	804	9.5	918	408		
1968		885	10.1				

The Standard Industrial Classification (SIC) definitions suggest more of a distinction between the two industries than actually exists; the industries are in most respects very similar. Almost all industrial laundries (IL) do some “flat work” (sheets, tablecloths) and many linen supply establishments (LS) supply industrial-type goods such as mats and dust mops. Both industries devote much of their output to garment supply, but it is within this latter activity that they are somewhat distinct.

Both industries are fairly small. Linen supply has an output now of about \$970 million per year, and industrial laundries about \$700 million, while in terms of numbers of establishments, 1,435 were classified as linen supply and 918 as industrial launderers in 1967.

2. Size Distribution

Size distribution is important since it indicates the degree to which small businesses share in the market. Both industries have many small companies with low revenues and few employees serving a small segment of the market. At the other extreme there are a few large companies with fairly large revenues occupying an increasingly large part of the market as they grow by amalgamation and through the purchase of smaller companies. Data presented in Table 2 reveal the preponderance of small reporting units in the industries in both 1965 and 1970, with possible indication of increasing size in the latter year. Nevertheless, the heavy concentration of facilities in the lower employment group categories (46 percent of total employment in 1970 was in reporting units employing less than 20 employees) indicates continuing opportunities for small businessmen.

TABLE 2

Distribution of Reporting Units With Employees, by Employment Size (1965, 1970)

Employment size	Number ¹ 1965	Number ¹ 1970	Linen supply ²	Industrial launderers ³
1-7	693	530	374	156
8-19	371	445	322	123
20-49	442	475	324	151
50-99	339	348	213	135
100-249	220	262	188	74
250-499	36	44	31	13
500 and more	3	4	4	—
Total	2,104	2,108	1,456	652

¹ Reporting units—linen supply and industrial launderers combined

² Reporting units—linen supply, 1970

³ Reporting units—industrial launderers, 1970

3. Location

Firm location is a function of population and population density, and all major metropolitan areas have industrial launderers and linen service representatives. National chains try to place at least one establishment in each metropolitan area. Exceptions to this occur where there is a component of demand greater than the population would seem to indicate. Hospital centers, State capitals, university towns, and cities near large military establishments are particularly attractive locations to the industry.

C. The Market

1. General

An idea of the general orientation of the market is available in Table 3, estimated from the 1963 market structure. In an industrial laundry, over 60 percent of the business comes from renting garments owned by the industrial laundry itself. Only 5 percent of business is done with articles owned by the client. Other categories of the market are wiping cloth rental (12 percent) and dust control rentals (8 percent). In the linen supply industry 80 percent of total revenues are derived from renting to businesses, but most of this is in "flat-work" (sheets, towels, tablecloths) rental which is the linen service's main business. However, 28 percent is now garment rental to businesses—a growing proportion, up from perhaps 20 percent in 1963, and bringing the two industries closer in the types of business they do and the markets they serve. This major distinction (in degree to which the two industries are specializing in garment rental) is perhaps the single most important factor in their growth differences. Garment rental is not only the fastest growing market sector, but also the most profitable. Originating in a "uniform" rental business, garment rental has now expanded to "career apparel" including clothes for all types of service workers—in hospitals, banks, restaurants, retail shops, garages, academic institutions, car rental agencies, transportation companies, public utilities, and so on.

TABLE 3
Market Structure

A. Industrial launderers

	Percent
Garment rental	63.2
Wiping cloth rental	11.6
Dust control	7.6
Garments and wiping cloths owned by customer	5.3
Linen supply rental	4.1
Other sources	8.2
Total	100.0

B. Linen supply

	Percent
To homes (linen supply)	1.0
Garment rental (to business)	28.0
Flatwork (to business)	52.0
Drycleaning work	1.3
Family work	1.7
Commercial work	3.5
Industrial laundry work	11.8
Other	0.7
Total	100.0

Details of the linen service market are available in Table 4, showing that restaurants, motels, and hotels are the major customers. Receipts from these customers are growing primarily as a function of the garment rental rather than “flatwork” rental; the latter is also less profitable except in very large quantities for major clients.

TABLE 4
Sales, linen supply, industry — 1968

Customer category	Percent of annual volume *
1. Restaurants (includes country clubs)	25.9
2. Food stores (grocery stores, supermarkets)	8.0
3. Industrial (other than food processors: includes gasoline service stations and new/used car dealers)	7.6
4. Hotels and motels	11.6
5. Medical (doctors, dentists, clinics, nursing homes, hospitals)	10.9
6. Other	36.0

* Results of a 1968 membership study conducted by the Linen Supply Association of America.

In both industries, growth is taking place by:

- a. Expansion of rental service into homes—particularly for towels, and
- b. Expansion of services to existing clients by introducing the idea of prestige, image-producing “career apparel,” mainly in the customer contact industries.

2. The Supply Chain

The service provided by industrial laundries/linen service companies varies in at least two ways. First, the articles can be owned by the client, or the industrial laundries/linen service, or (increasingly) by the manufacturer of the articles in a licensing or franchising agreement with the industrial laundries/linen service. Second, the service can be initiated by the client, as a request; from the industrial laundries/linen service, in a sales bid; or from the clothing manufacturers, some of whom are realizing that the rental clothing market is a very fast growing one indeed.

3. *Economic Threshold for Entry into Market*

Several factors have a bearing on the scale of operations which must be obtained before market entry is feasible.

Both industries are highly labor intensive. This characteristic is changing due to more activity by unions and expanded research into more capital intensive methods designed to cut labor costs and increase labor productivity. The large firms (with access to capital) are in the forefront in this trend, and are able to hold down prices as a result, while smaller operations are being forced to close if lack of capital prevents them from investing in the "new" machinery. "Minimum threshold size" is, therefore, growing.

Another major component of cost (over 25 percent in most cases) is attributable to the distribution of clean articles and collection of soiled items. These costs are increasing due to road taxes, trucking industry wages, fuel bills, and the costs of vehicle servicing. This means that there is an advantage in securing large clients who have large orders, and a disadvantage (even a loss) in serving a small client. Interviews in the industries suggest that the current cost of making one service call may be about \$5 to \$7. The advantage of a large client is obvious:

100 customers, 10 pieces each = 100 calls per week = \$500-\$700

10 customers, 100 pieces each = 10 calls per week = \$50-\$70

4. *Ease of Entry*

The "minimum threshold," therefore, tends to be a function of both contract size and total business, and this makes it difficult for the small firm, since entry with small capacity prevents access to the most profitable large order market.

Initially, at the "mom and pop" size, the firm might be quite competitive in bidding for contracts as labor and overhead costs would be low. Despite low labor productivity due to low capitalization, survival would be feasible even serving small clients with small orders where distribution costs are high per item. Capital investment totaling \$10,000 would be sufficient for this type of operation, with the following items of equipment probably required:

1 100 lb. washer	\$2,000	Employment: 4-5 persons
1 press	2,000	
1 tumble dryer	2,000	Plant size: 2-4,000 sq. ft.
2 delivery vehicles	3,000	
stock (setup costs)	1,000	
	<hr/>	
	\$10,000	

However, expansion beyond this stage is difficult. As soon as the firm is able to secure larger contracts (inherently more profitable), then a change of scale is needed, entailing new machinery, a larger, and possibly unionized, work force, a sales effort to keep the new machines fully occupied, and administration costs, all of which tend to raise the operating costs despite higher labor productivity. Prices in bidding will then be higher than both “mom and pop” size stores with low overhead and large companies with high productivity.

In effect, the cost per item processed is higher in the size range \$50,000 to \$100,000 than it is for companies of smaller and larger size.

5. *Market Potential*

Future growth of linen supply and industrial launderers will no doubt be considerable, but there are many complicated factors to be taken into account.

The two industries have grown because of the great convenience which their services offers—it relieves the client of an unpleasant, costly, time-consuming, job, and the market for rental garments and other items will grow because of this. An even more convenient method, however, is now available to solve this problem and is on the market—the use of disposable items in flatwork (wiping cloth, sheets, towels, napkins, tablecloths) and in the garment areas (coveralls, surgical aprons, patient coveralls, and so on). The economics of disposables are making them more attractive as the price of labor (and therefore of linen supply and industrial launderers services) grows.

The Linen Supply Association of America (LSAA) is aware of this trend and is encouraging its members to expand into the disposable market by adding disposables to their services to be used where most economical. Given this possibility, the industrial laundries/linen service might grow even faster. The linen supply industry expects the market for career apparel to grow to \$70 billion by 1980.

This optimistic LSAA estimate of the market for “career apparel” based on the penetration of the “career clothing” idea to some very large markets, such as banks, utilities, and university communities, where uniforms are not as yet fully accepted. Recently, for example, Minnegasco (Minneapolis Gas Co.) outfitted all its employees from president to janitor with several alternate types of clothing, including various lines of dresses (evening wear included) and pant suits for women employees, all imaginatively styled and updated on a fashion conscious basis. This “image” building activity may well provide a very important market for linen supply/industrial launderers.

D. Competition

1. General

Competition within the industries is severe in most metropolitan areas, and survival depends largely on two factors:

- a. The success of the firm's marketing effort.
- b. The degree to which the firm can reduce labor costs.

Most large companies, institutions, hospitals, restaurant chains, and the like take care of their laundry needs by asking for bids from the industry. The ability to assess one's own costs in relation to the types of items needed, the frequency of service, and the quality required is a critical feature. Bidding tends to be highly competitive, and in some areas a price-cutting "war" develops in which firms "steal" contracts from each other by bidding below cost.

Great variation in local labor rates, due to the differing bargaining power of local unions, causes significant differences in the competitive stance of firms. Currently, wage rates in Oakland, California, are 60 cents per hour higher than those in Los Angeles, allowing Los Angeles companies to compete successfully for Bay Area business despite the 400-mile distance. As a result, all but two of the existing Oakland firms are now for sale.

Recent expansions by the national chains have also increased competition, since the large companies have greater resources in marketing and bidding. By mid-1970, 50 percent of the industrial laundries market was controlled by the top eight companies and 60 percent of the linen service market by only five companies. The swing toward higher capitalization in response to rising labor costs favors the large companies.

2. Form of Organization of Competition

Tables 5a and 5b feature the industry structures from the point of view of organizational form. It is clear that the dominant organizations are corporations (70 percent of all ownership), which control 90 percent of the market. Small businesses, individually owned and in partnerships, represent over 20 percent of the firms, sharing 3 to 5 percent of the market. Despite this, however, in 1963 the industries were still composed primarily of single establishment firms, with only 20 percent of industrial laundries having more than 11 branches (21 percent of market). Today the leading chains control perhaps 50 percent of the market. This growth in chains has steadily lessened the available opportunities for small businessmen during the last decade, particularly in the linen supply industry.

TABLE 5a

Legal Form of Organization — 1963

	Industrial launderers			Linen supply		
	Establishments		Receipts	Establishments		Receipts
	Number	Percent	\$ Mil- lions	Number	Percent	\$ Mil- lions
Individual owner	201	23.2	\$ 12.4	366	22.5	\$ 25.8
Partnership	76	8.9	31.0	143	9.0	33.1
Corporation	587	67.9	326.9	1,079	67.5	505.4
Other legal forms	4	—	2.1	3	—	2.3
Total	868	100.0	\$372.4	1,591	100.0	\$571.6
						Percent
						4.7
						7.0
						88.3
						—
						100.0

Source: 1963 Census of Business

TABLE 5b

Single and Multibranch Firms

	Industrial launderers			Linen supply		
	Establishments		Receipts	Establishments		Receipts
	Number	Percent	\$ Mil- lions	Number	Percent	\$ Mil- lions
Single	567	65.3	\$182.2	1,010	63.5	\$257.6
2-10	74	18.8	113.0	194	12.7	106.9
11+	11	15.9	77.2	387	23.8	207.1
Total	652	100.0	\$372.4	1,591	100.0	\$571.6
						Percent
						45.2
						18.7
						36.1
						100.0

E. Technology

Recent attempts to increase productivity in response to rising labor costs have resulted in many new processes and machines being introduced. Yet the technology used by both industries remains basically simple.

Standard equipment includes the following *:

Washers 25-400 lb. capacity	\$20,000
Washer/extractors	17,000
Tumble dryer, up to 400 lbs.	3,000
Flatwork ironers	55,000
Steam presses (hand)	5,000
Steam presses (machine operated)	10,000
Tunnel steamer	10,000
Solvent drycleaning, up to 400 lbs.	30,000

* Prices are averages for one item of the largest capacity.

Additional necessary equipment includes conveyor (overhead and ground), loading and unloading equipment, parcelling machines, a hot water system of large capacity, and perhaps dye vats. Trucks for delivery are also needed. All of this equipment is simple and can be maintained “in-house”; it is also fairly reliable and downtime is normally not excessive.

Major technological changes include the recent introduction of the “hot box” by LSAA—a heating and steaming box operating at high temperatures (300° to 400° F) for cleaning garments. This major innovation performs some of the functions of washers, driers and presses, and labor saving possibilities are large. Some hot boxes are now in use, permitting increases in productivity of 80 to 200 percent and cutting down on the labor force proportionately.

Another major technological change without which the hot box cannot be used is the development of increasingly long-lasting, man-made fiber mixes and manmade/natural fiber mixes. In uniforms the 65-percent dacron 35-percent cotton garments can last up to 2 years (four times their cotton equivalents) at an extra initial cost of only 30 to 80 percent. They are essential if a firm is to take advantage of such methods as the hot box. Item replacement is an important component of cost in the industry.

Finally, new continuous process machinery developed in Europe is now being brought into the U. S. market, permitting even lower labor handling costs. The LSAA is increasing productivity at the distributor end of the business by providing advice to the salesman’s problem of least-cost delivery with optimum service to customers.

All of these improvements require high volumes to justify themselves economically. Capitalization in the industry is growing rapidly, raising the economic threshold for entry into the market.

F. Cost Structure

The extent of labor productivity has been the major factor in the structuring of costs in the industry. During the past decade there has been a gradual substitution of capital for labor as labor costs have risen. Nevertheless, the recent technological breakthroughs have been associated with increasing union pressure for better wages and working conditions.

Annual replacement ratios for items in the linen supply industry vary considerably. Industry statistics show the ratio for continuous towels to be 1.623 per 100 whereas that for pants is 5.316 per 100. The use of “new” fiber in garments is expected to close this gap, and ratios may change considerably as the need for hot processing methods (to raise labor productivity) forces companies to use the long-lasting product mixes.

G. Productivity

Productivity is a different concept to deal with in a service industry. Clearly it is important to raise output per man-hour but such efforts could conceivably lower the quality of service to the customer, which is ultimately the only measure of success that is relevant. The very low labor productivity figures which have until recently been common in the industry (Table 6) are more an indicator of the degree to which the industry has been dependent on labor (instead of capital) than an indicator of “inefficiency” per se.

During the period 1963 to 1967, output per man-hour grew at a rate of 4½ percent per year in industrial launderers and 6 percent per year in linen supply. However, in both cases, output per dollar of labor cost declined.

TABLE 6
Productivity of Labor
(Estimates only)

	Industrial launderers		Linen supply	
	1963	1967	1963	1967
Output per \$1 of labor cost	\$2.65	\$2.63	\$2.68	\$2.60
Total receipts per man-hour	\$5.55	\$5.95	\$4.01	\$4.90

This low productivity feature is related to low capital investment figures, which even after the relatively heavy investment of the 1965-1970 period range only between \$1,500 and \$6,000 per employee, with an average of about \$3,000, depending on the size of the company.

Data on productivity in relation to revenue and to weight of goods processed are in Table 7, which distinguishes between firm sizes. The table shows that productivity per pound increases as firms increase annual volume to \$1 million of revenue while revenue per employee increases up to companies doing \$2 million worth of business. Beyond these points average productivity begins to decline.

TABLE 7
Productivity Measures
Linen Supply Industry — 1968

Company size	Productivity	
	Revenue per lb. (cents)	Revenue per employee
Under \$200,000	—	—
\$200,000 to \$500,000	20.1	\$ 8,178
\$500,001 to \$1,000,000	21.5	\$10,934
\$1,000,001 to \$2,000,000	20.0	\$12,017
Over \$2,000,000	18.8	\$11,426

Source: LSAA survey 1968

These data indicate that the smaller firms with low productivity of labor receive a fair revenue per pound of work processed. Above \$1 million in sales, revenues per pound start to fall due to increasing overheads (such as sales, administration, and equipment amortization costs) despite increasing labor productivity.

Economies of scale do not emerge in these figures, but they certainly are available in many forms. The advantages of having large clients and large volume in lowering distribution costs have already been discussed. Almost all capital expenditures in these industries cut down labor costs and produce economies since the larger and faster machines use so much less labor per pound of output. One problem associated with capital intensity, however, is the need to generate quantum increases in business in order to run new machinery at full capacity, involving much greater expenditures on sales and the marketing function. Lowering production-labor costs, therefore, involves an increase in administration and sales-labor costs. There is no evidence that these types of overhead eventually make further expansion less profitable. The available economies of scale do not seem to have a cutoff point as long as advances in technology take place.

H. Pricing Policy

Pricing is one of the critical skills affecting success in industrial launderers, linen supply industries. Most sales made to large- and medium-sized organizations take place by the bid method in which 20 or more firms are requested to submit bids from which the client makes his selection. Bid prices are based on the cost of processing individual types of items and vary considerably from such simple items as towels to the complex “career apparel” items. Competition is severe, and accurate knowledge of costs is, therefore, a requisite for survival in the industries.

TABLE 8
Average Price Received for Selected Clean Items Delivered

	Percent of total sales	Price per item	Price per lb.
Office towels	5.4	9¢	55¢
Pants	5.8	45	34
Shirts	4.7	39	20
Wiping cloths	1.2	3	15
Sheets	9.1	13	17
Tablecloths	3.7	13	18
Dresses	5.4	35	33

Source: LSAA Handbook 1970

These data show great variation in the price per pound received. These prices must cover labor costs, the machine-hour rate (MHR) and replacement costs for the items due to wear and tear and loss. Obviously, bidding on a contract which might include many different items is a difficult process and requires great skill and good cost accounting. It is common for many firms to bid at “below-cost” prices, not only because of their desire to get the contract, but because of ignorance over certain aspects of the costs of one or two items in the total contract. The price per pound to process shirts and pants (which need to be pressed) is obviously greater than that of towels. Sheets and tablecloths require a special item of equipment—a flatwork ironer—which represents a \$50,000 investment, and large volumes of business are needed to fill the capacity of even the smallest flatwork ironer. Margins are slim and small slips cost money.

I. Profitability

Profitability per item is difficult to generalize about because of all the variables involved, but industry sources stress the profit potential of garment rental (given adequate new machinery) and the difficulty of making money in flatwork. Indeed, firms will often offer flatwork as a “loss-leader” in order to gain associated garment contracts.

The LSAA Survey of 1968 (44 firms) indicated the following average operating ratios:

Gross profit (margin)	42.2%
Operating expenses	34.4
Operating profit	7.8
Income taxes	2.8
Net profit	5.0%

The average after-tax return on investment was about 19.5 percent. These margins are fairly wide by service industry standards, exceeding much of the retailing industry in operating and net profit. Return on investment is handsome.

Variation in profitability varies considerably by size of company.

TABLE 9
Linen Supply Industry — 1968
Operating Ratio Percentages by Annual Receipts Categories

	Under \$500,000	\$500,000 to \$1 million	\$1 million to \$2 million	\$2 million +	\$30 million +
Gross margin	42.9%	39.1%	41.8%	40.5%	31.7%
Expenses	35.2	34.2	32.3	30.7	21.1
Operating profit	7.7	4.9	9.5	9.8	10.6
Taxes	2.2	1.1	3.7	4.4	5.2
Net profit	5.5%	3.8%	5.8%	5.4%	5.4%

Expenses decline systematically with size—a function of the economies of scale discussed earlier. This means that operating profit tends to increase with size, apart from the “dip” in the medium-size company which experiences low-profit levels.

III. ANALYSIS OF BUSINESS FEASIBILITY

A. Major Factors Determining Industry Success

1. Marketing and Sales

The industry is selling a service, and growth takes place by extending the range of those services. This takes a great deal of skill and persuasiveness by the firm. Bidding is at the heart of the company-client relationship and competition is severe. A good sales staff, adequately paid, is an essential. Subscription to lists of “contacts” is invaluable.

2. Cost Control

The pressure placed on margins by the increasing cost of labor in this industry means that efficiency in all other areas is essential. This

applies particularly in distribution where good management can reduce costs effectively.

3. The Critical Growth Gap

Entry can be achieved with a very small amount of capital, but growth beyond the \$500,000 per annum level is difficult as overhead becomes larger. At this point, access to larger amounts of capital is essential in order to reduce labor requirements and raise productivity. Failure to do this reduces net profit to critically small margins, and it becomes difficult to win any contract at “above cost” prices.

4. Size of Client

Of all the critical features this is the most difficult to deal with. It is clear that very small clients cannot be served profitably once the firm grows beyond the “mom and pop” stage, and many firms have a minimum contract value (\$5 to \$10 per week) below which they will not service a client. This feature is a difficult one from the point of view of a new small business.

5. Product Mix

Garments are the most profitable end of the business but require larger sums of investment both on behalf of the firm (in processing machinery) and the client (in his stock of garments). Unless entry is made at a fairly large size, this valuable market may not be open to the new firm with little experience.

B. Problems of Minority Enterprise

A new minority enterprise in these industries must face all of the problems discussed above and probably several others. But, there may be opportunities not open to nonminority competitors.

In Detroit, Cleveland, and Oakland, California, and some other large cities, the minority community clientele may be sufficient to support a fair-sized industrial laundry, given guarantees of support from minority company trade associations. Most of these companies are relatively new, however, and are unlikely to be very receptive to attempts at selling “career clothing” or other industrial launderers/linen supply services.

C. Projection of Returns—Two Hypothetical Situations

Two situations likely to characterize minority enterprise are discussed next. The difference between them is mainly one of scale, a function of the capital investment made by the entrepreneur at the outset. In both cases, emphasis has been placed on the high profit side of the industry (garments) and less on the flatwork side.

TABLE 10
Financial Projections
for Representative Businesses of Two Sizes

	Case 1		Case 2	
	Small proprietorship (\$50,000 annual gross)		Medium-sized proprietorship (\$200,000 annual gross)	
Capacity—lbs. per yr. lbs. per day	250,000 lbs. 1,000 lbs.		1,000,000 lbs. 4,000 lbs.	
Equipment Costs:				
Washer extractor	1 (200 lb.)	\$ 4,000	1 (400 lb.)	\$ 20,000
Spare	1 (50 lb.)	1,000	1 (100 lb.)	3,000
Dryer	1 (100 lb.)	2,000	1 (400 lb.)	4,000
Press	2 (manual)	1,000	1 (automatic)	5,000
Drycleaning machine	1 (small)	5,000	1 (large)	30,000
Heating plant	1	2,000	1	12,000
Installation		1,500		8,000
Other		500		2,000
Vehicles	1	2,000	3	6,000
Total		\$19,000		\$ 90,000

Annual operating statement

Gross receipts		\$50,000		\$200,000
Operating expenses				
Labor:				
Production	(3)	\$16,500	(6)	\$42,000
Distribution	(1)	7,500	(3)	26,750
Sales and administration			(2)	17,500
Nonwage benefits (nonunion)		3,500	(union)	22,000
Total labor costs		\$27,500		\$108,250
Supplies		1,000		4,000
Equipment maintenance		1,000		5,000
Materials replacement		5,000		35,000
Total operating expense		\$34,500		\$152,250
Overhead expenses:	(3,000		(10,000	
Rent and Utilities	sq. ft.)	4,000	sq. ft.)	12,000
Equipment depreciation	(10 yr.)	1,900	(10 yr.)	9,000
Total overhead		5,900		21,000
Total expenses		\$40,400		\$173,250
Net profit before taxes and owner's compensation		\$ 9,600		\$ 26,750

Certain Assumptions are Made

1. All buildings and real estate are rented, not purchased.
2. Input capacity is determined by the capacity of the washer/extractor machine. All other equipment capacity is geared to this. This is not unreasonable, but in practice other measures of capacity would be necessary also.

3. An assumed revenue of 20 cents per pound of goods processed is used as base (the average of the linen supply industry).
 4. Labor needs are calculated as follows:
 - a. production—from manufacturers' literature
 - b. distribution—it is assumed that the average client has a contract worth \$30 and is serviced once a week. From projected net receipts, it can be estimated that Case 1 firm has weekly revenues of about \$1,000 and Case 2, of \$4,000. The number of contracts this revenue represents is:
Case 1— $\$1,000/\$30 = 33$
Case 2— $\$4,000/\$30 = 133$
- Each vehicle can make 10 calls per day, or 50 to 60 per week; Case 1 needs one vehicle and driver, and Case 2 needs three.

IV. GUIDANCE FOR ESTABLISHING THE BUSINESS

A. Approaching the Market

The most opportune situation for both Case 1 and Case 2 might be to purchase an existing business with an established clientele. This may not be possible, however. Marketing is a very important part of the industrial launderers/linen supply industry and can be thought of as two activities:

1. Direct selling to potential customers.
2. Being placed on bidders' lists (for institutional and other larger customers).

Both these activities can be started by subscribing to "contact leads" published by specialist organizations covering the industrial laundries/linen service market locally. A blanket mailing coverage of all establishments in the "customer types" list (LSAA) derived from the local yellow pages of the phone book is another basic approach. The "customer types" list as shown in Table 4 is large and can yield much valuable business.

Minority businessmen will, of course, attempt to contact local minority-owned businesses in the customer-types listing. Direct person-to-person contact with the potential client is more effective than any other means of selling. Initially, it may be that only small clients, who are difficult to service without making a loss, are recruited; however, in the beginning "all business is good business" and small contracts will help. The aim should be to bid effectively on the larger contracts let periodically by larger companies, chains, restaurants, and so on. Public institutions and military agencies welcome potential bidders; other larger organizations must be "sold" more heavily.

Specialization in a particular market that is also a particular product group is an additional possibility. Specialization in servicing gas stations, for instance, might yield high profits as experience grows and knowledge of the “gas station” industry is accumulated. Another profitable area of specialization might be dentists’ and doctors’ offices, particularly where the latter are grouped together in “medical centers” and have minority representation. Indeed, this latter factor can be a criterion used to search out markets, since minority businesses are most frequently found among gas stations, automotive repairs, food franchise outlets, some areas of retail trade, beauty shops, and bars.

Attempts at getting “guarantees” of business from minority operations have sometimes been successful in other industries and can be applied here, too. Certainly this would be an effective method in larger cities which have a large minority community.

B. Obtaining Financing

Established firms in industrial launderers/linen supply industries make use of bulk credit and of equipment-secured debt to finance operations and expansion. For the newcomer to the industries, financing can be difficult to obtain, and for minority newcomers, even more so.

There are, however, opportunities for minimizing startup capital needs. The use of used machinery and vehicles is an obvious one, as is the purchase of stock and other materials from other companies which are going out of business, or being amalgamated, or spinning off some operations. The trade journals “personals” are an effective market source for this. Leasing premises rather than buying or constructing them is an obvious capital-saver, but less obvious is the possibility of lease/lending machinery from some of the major manufacturers. In times of slow business and poor credit, manufacturers tend to be more open to the possibilities of lease/lend in order to move their stocks of machinery.

The new business will, of course, need some new capital to start and to continue operations. In order to obtain this as cheaply as possible, a sound “financial plan” is essential. Elements of this include knowledge of the Federal, State, and local loans and guarantees programs available for small business. Another listing of non-profit “help” agencies for minority business, some of which have financial resources, is the publication *Private Programs Assisting Minority Business*, issued in 1970 by the Office of Minority Business Enterprise, U.S. Department of Commerce, Washington, D.C. 20230.

APPENDIX

Data on labor requirements, capital needs, and plant size have all been discussed in Section II of this report. Further information specific to the industry in these areas can be obtained from the industries' trade associations and their local branches.

1. Linen Supply Association of America
925 Arthur Godfrey Road
Miami Beach, Florida 33140
Phone: 305/532-6371
Publication: Linen Supply News (monthly)
2. Institute of Industrial Launderers
1726 M Street, N.W.
Washington, D.C. 20036

OFFICE OF MINORITY BUSINESS ENTERPRISE (OMBE) AFFILIATE ORGANIZATIONS

Albuquerque

National Economic Development
Association (NEDA)

1801 Lomas, N. W.
Albuquerque, N. M. 87104
508/843-2386
Victor M. Casaus,
Regional Vice President

Atlanta

Atlanta Business League (NBL)
329 Walker Street, S. W.
Atlanta, Georgia 30314
404/524-5449
Franklin F. O'Neal, Executive Director
Wendell White (OMBE Representative)
404/526-6304

Baltimore

Morgan State College Minority
Business Enterprise Project
2108 North Charles Street
Baltimore, Maryland 21218
301/685-0610
Ralph J. Ross, Executive Director

Boston

The Roxbury Small Business
Development Center
126 Warren Street
Roxbury, Massachusetts 02119
Bernard Wiley—Acting Executive
Director
617/427-6333
Frank Bispham (OMBE Representative)
617/223-2381

Chicago

Chicago Economic Development
Corporation (CEDC)
162 North State Street, Suite 600
Chicago, Illinois 60601
231/368-0011
Garland Guice, Executive Director

Bennett Johnson, Jr. (OMBE Representative)

312/353-4460

NEDA
537 Dearborn South
Chicago, Illinois 60605
312/939-2607
Gilbert M. Vega,
Regional Vice President

Cincinnati

Determined Young Men
3880 Reading Road
Cincinnati, Ohio 45229
513/221-0180
Mervyn Stenson, Executive Director

Cleveland

Greater Cleveland Growth Corporation
690 Union Commerce Building
Cleveland, Ohio 44115
216/241-4313
Melvin Roebuck, Executive Director
Minority Economic Developers
Council (MEDCO)
10518 Superior Avenue
Cleveland, Ohio 44106
Armond L. Robinson, Administrator

Dallas

Dallas Alliance for Minority Enterprise
(DAME)
7200 North Stemmons Freeway
Suite 1006, UCC Tower
Dallas, Texas 75222
214/637-5170
Walter Durham, Executive Director

Denver

Colorado Economic Development
Association (CEDA)
1721 Lawrence Street
Denver, Colorado 80202
303/255-0421
Edward Lucero, Executive Director

Detroit

Inner City Business Improvement
Forum (ICBIF)
6072 - 14th Street
Detroit, Michigan 48208
313/361-5150
Walter McMurtry, President

El Paso

NEDA
First National Building
Suite 10B
109 North Oregon Street
El Paso, Texas 79901
915/533-7423
Jose Manuel Villalobos,
Regional Vice President

Indianapolis

Indianapolis Urban League
445 North Pennsylvania Street
Indianapolis, Indiana 46204
317/639-5391 or 253-5418
Sam Jones, Executive Director

Kansas City

Black Economic Union (BEU)
2502 Prospect
Kansas City, Missouri 64127
816/924-6181
Curtis McClinton, President

NEDA
703 North 8th Street
Kansas City, Kansas 66100
913/342-6663
Richardo Villalobos,
Regional Vice President

Los Angeles

South Central Improvement Action
Committee (IMPAC)
8557 South Broadway
Los Angeles, California 90003
213/751-1155
Louis Wilson, Director

The East Los Angeles Community
Union (TELACU)
1330 South Atlantic Boulevard
Los Angeles, California 90022
213/268-6745
Claude Martinez,
Director of Development

NEDA
5218 East Beverly Boulevard
Los Angeles, California 90022
213/724-6484
Silvestre Gonzales,
Regional Vice President
Jack Wilburn, Coordinator
213/824-7691
**Powell McDaniel (OMBE
Representative)**
213/824-7715
Joseph Luna (OMBE Representative)
213/824-7715

Memphis

Memphis Business League (NBL)
384 E. H. Crump Boulevard
Memphis, Tennessee 39126
901/574-3213
Leonard J. Small, Sr., Project Director
Harold Jones (OMBE Representative)
901/534-3216

Miami

NEDA
8551 Coral Way
Suite 307
Miami, Florida 33155
305/221-5531
Dr. Antonio Machado,
Regional Vice President

Newark

MEDIC Enterprises, Inc.
287 Washington Street
Newark, New Jersey 07102
201/642-8054

New Haven

Greater New Haven Business and
Professional Men's Association
226 Dixwell Avenue
New Haven, Connecticut 06511
Gerald S. Clark, Executive Director
203/562-3819

New York

Puerto Rican Forum, Inc.
156 Fifth Avenue
New York, New York 10010
212/691-4150
Hector I. Vasquez, Executive Director

New York (continued)

Capital Formation, Inc.
215 W. 125th Street, Room 313
New York, New York 10027
Hirom C. Cintron, Director, Harlem
Office
212/222-9650

Brooklyn Local Economic Development
Corporation (BLED CO)
1519 Fulton Street
Brooklyn, New York 11216
212/493-1663
Preston Lambert, Executive Director

NEDA
19 West 44th Street
Room 407
New York, New York 10036
212/687-1128
David J. Burgos,
Regional Vice President

Philadelphia

Entrepreneurial Development
Training Center
1501 North Broad Street
Philadelphia, Pennsylvania
215/763-3300
Alphonso Jackson, Director

Phoenix

NEDA
Amerco Towers
2721 North Central
Suite 727 South
Phoenix, Arizona 85004
602/263-8070
Joseph Sotelo,
Regional Vice President

Pittsburgh

Business & Job Development
Corporation (BJDC)
7800 Susquehanna Street
Pittsburgh, Pennsylvania 15208
412/243-5600
Forrest L. Parr, President
Marian Diggs (OMBE Representative)
412/644-5529

Richmond

National Business League
700 North Second Street
Richmond, Virginia 23219
703/649-7473
Allen Roots, Acting Project Director

San Antonio

NEDA
1222 North Main Street
Kallison Tower, Room 422
San Antonio, Texas 78233
512/224-1618
Cipriano F. Guerra, Jr.
Regional Vice President
Jesse Rios (OMBE Representative)
512/225-5511

San Francisco

Plan of Action for Challenging
Times (PACT)
635 Divisadero Street
San Francisco, California 94117
415/922-7150
Everett Brandon, President

Seattle

United Inner City Development
Foundation
1106 East Spring St. - Xavier Hall
Seattle, Washington 98122
206/626-5440
Wilson Gulley, Executive Director

Washington, D. C.

Mayor's Economic Development
Committee (MEDCO)
1717 Massachusetts Ave., N. W.,
Room 704
Washington, D. C. 20036
202/667-6480
Michael D. Wallach, Director,
Business Assistance Center
Curley King (OMBE Representative)
202/967-5051
Howard University's Small Business
Guidance & Development Center
Post Office Box 553
Washington, D. C. 20001
202/636-7447
Dr. Wilford White, Director

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